CONFERENCE

With representatives of
Messrs. Price, Waterhouse & Co.

Sept. 14, 1922.

ONTARIO

Hydro Electric Inquiry Commission

36 KING ST. EAST

TORONTO

CONFERENCE WITH MESSRS:

W. D. Bonthron,
D. M. McClelland and
Paul Landis,
all of the firm of
PRICE, WATERHOUSE & COMPANY.

Thursday, September 14, 1922.

Mr. Bonthron: The most important thing we have found to report upon is the question of the eventual ownership of the property. Under the present scheme of things, the transmission lines, and transformer stations are being amortized in a period of thirty years by direct charges to the various municipalities in accordance with what has been determined to be their equitable interest in these lines. I am taking the Niagara System as an example. The generating system, which is by far the most important, on account of the total amount invested, is being amortized through sinking funds by charges included in the costs of power. They are not being tabulated in any way so as to show what the interests of the various municipalities are in respect of the property. The amortization charges, or rather the sinking fund provisions, in respect of transformer stations and transmission lines, are separately charged to the municipalities. These are shown, are tabulated and are cumulative from year but the very much larger investment in the generating plant .....
The sinking fund is included in the cost of power per unit and is not separately determined for each municipality to show how much of that sinking fund was derived from each municipality. We think that is important. It is easily determined and should be determined from year to year because, through the operation of the renewal reserve - which is practically a depreciation reserve - it is intended that the properties be maintained at their original value. It is certainly to be taken that, at the end of thirty years, they will be of the same value as they are today and they will then have been entirely written off, through the operation of the sinking fund. The various municipalities then will have paid for that property in their power bills. Suppose, at the end of thirty years, that the present investment, approximating One Hundred Million Dollars ($100,000,000.00.) has been wiped out - amortized - and suppose that a new municipality should come in and use the power. The municipalities that have been using power for this thirty year period, amortization period or sinking fund period, will have paid for this property. Their interests will not be identical but that will depend upon how many years they have been in the System and paying for the sinking fund. After the properties have been written off, the new municipalities come in that have not previously been using power. It is not fair to the municipalities who have paid for the property to allow these new municipalities to come in at the same rates.

CONFERENCE WITH MESSRS.

W. D. Pontiron,
D. H. Hoffland and
Paul Lavelle,
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CHAIRMAN: What difference would it make to a municipality whether it owned a one-fifth interest or a one-fiftieth interest?

MR. BONTHRON: Suppose we had one hundred municipalities who had paid this One hundred thousand dollars; then we take in a new municipality. Is it fair to the one hundred municipalities, who have paid for the property, to charge them the same amount per h.p. for power as the new municipality.

CHAIRMAN: Under the Statute, do they not have to give them all the same price?

MR. WEGENAST: No.

MR. BONTHRON: I do not think that there is anything to that effect.

MR. HARRIS: When the whole scheme was first started, there were seventeen municipalities joined together and they entered into this contract and the Hydro Electric had a contract with the Ontario Power Company to supply them with power, which they turned over to these municipalities and these municipalities went in when the transmission lines were built. Since then, of course, hundreds of municipalities have come in and the policy of the Hydro-Electric has changed and they have gone into the generating of power so that the people who came in originally are now saddled with the capital cost, not only of transmission lines but of generating power. The first year they had seventeen municipalities, the next year 22 and so on along the line. So you would get into a tremendously complicated situation and another thing; at the end of thirty years, the demand for power would be such that they might have to build another Chippawa Canal.

MR. BONTHRON: It is possible that there would be property to be amortized that would not be taken care of by the operation of the sinking fund at the end of thirty years. That is just why I think the relative interests of all municipalities in the property should be determined, and kept up to date from year to year.

CHAIRMAN: A number of municipalities entered into a contract with a Company to supply them with power. If they had continued in that manner they would have had their power for less than they get it today but the old municipalities assumed the liability for the Chippawa development which, for themselves, they did not want but which was needed for the large number of municipalities which later came in on their system.

MR. BONTHRON: Just another reason, I think, in support of our contention.

CHAIRMAN: Can you determine under the Statute? Is the Statute concise and clear enough for you to determine?

MR. BONTHRON: I believe the Statute merely says that the title of the properties will be "vested in the municipalities". That, I think, in itself, allows sufficient latitude to determine

GRAHAM: What difference would it make to a municipality whether it owned a one-fifth interest or a one-fifteenth interest?

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the relative interests on an equitable basis. We propose, if it meets with your approval, to report on that situation and to suggest a method of determining the relative interests from year to year.

MR. HANEY: The proportional interest would vary every year?

MR. BONTHRON: Naturally! But it is a thing that is readily determined once the basis is determined upon. It is not an easy matter to do if it is deferred for twenty or thirty years; it would have to be built up from year to year and, if done from year to year, it would be easy.

CHAIRMAN: Mr. Wegenast tells me that the Hydro has done that itself.

MR. BONTHRON: Not with respect to the generating plant, which is the bulk of the property.

MR. HARRIS: They did not come into the picture until now.

MR. ROSS: Have they done it with the Ontario Power?

MR. LANDIS: No.

MR. HANEY: Have they done it with the Wasdell System?

MR. LANDIS: No, that is subdivided. This refers only to the Niagara System.

MR. HANEY: Has the proportion of the interest of each municipality been determined in the Severn — the Eugenia — System?

MR. LANDIS: So far as based on a power cost, yes. The sinking fund reserve is divided as to municipalities, the individual municipality being credited with its proportion of the sinking funds paid in.

MR. HANEY: Suppose you had one hundred municipalities owning One Hundred Thousand Dollars worth of generating plant; have you concluded how much you would charge the new municipalities coming in?

MR. BONTHRON: Yes. Assuming that, at that time, a fair rate of interest would be 5%, we would propose that a fair plan would be to charge in the power costs a varying rate of interest on this investment and credit this interest on the reduction of the power bills to those municipalities which have supplied that capital proportionately to their interest in the capital investment. It recognizes the contribution made to the capital and with that change from year to year ...

CHAIRMAN: Would you take the Queenston-Chippawa development as a separate development and would they have a certain interest in that?

MR. BONTHRON: Yes. The total generating plant should be considered as a unit in so far as Niagara is concerned.

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MR. HANEY: At the end of twenty years a new municipality might come in; they would pay 5%, or whatever the rate was, and the others would be credited proportionately.

MR. BONTHRON: Yes; we know that they are accumulated from year to year. The sinking fund payments, made by several municipalities, in respect of transmission lines and transformer stations are.....

CHAIRMAN: You are prepared to report on that?

MR. BONTHRON: Yes, if it meets with your approval.

R.G.

MR. ROSS: I have thought of that question to a certain extent. It seems to me that the history of the Hydro has gone on sufficiently to enable us to protect the future by the curve of the past. It seems to me that, in thirty years, every municipality in Canada will be in the group, therefore the application of that scheme will be more pertinent as time goes on rather than in its application to the future after the end of thirty years. Another phase: while there is a sinking fund, as time goes on the capitalization is increased and you will never have a total cessation of the sinking fund and I can quite see the equity of that. When the Hydro commenced it was a partnership of brothers, so to speak, and you took in the little brother and, whenever any person wanted to come in, they could come in free. That was the basis on which it was started and I think you will find that the question in bringing in new municipalities.

CHAIRMAN: Mr. Wegenast shows me a statement showing the equity that each municipality has in the sinking funds.

R.G.

MR. ROSS: That is only for transmission lines; not power stations.

MR. WEGENAST: No; whatever element is included in the power cost. That is in the report.

R.G.

MR. ROSS: They only deal there with transmissions.

MR. WEGENAST: That is because the cost of the generating plants is not shown in the power costs.

MR. BONTHRON: It is being included but not yet for the Chippawa development.

R.G.

MR. ROSS: It is in the bill but does not appear separately.

MR. WEGENAST: There is a complete statement somewhere, giving a complete list of the municipalities and giving their equities.

MR. BONTHRON: (After looking at the report) That is property that is owned by these particular municipalities and not by the H.E.P.C. it merely says "All Hydro municipalities".

MR. WEGENAST: (Quoted from page 280, 1921 Hydro Report).

R.G.

MR. ROSS: I do not think there has been any equity allowed specifically to any municipality for the equity they have in the Ontario

Power Co.

MR. WEGENAST: There must be some because ---

MR. BONTHRON: It has not been determined how much of that sinking fund provision, which was included in the power bills, was contributed by each municipality.

MR. WEGENAST: I do not think there is a separate item for sinking funds.

MR. R. A. ROSS: I doubt whether the municipalities have any equity in the Ontario Power Co. The equity that they should have, the Ontario Power Co. holds for itself.

MR. WEGENAST: Until 1920 they had not set up sinking funds for the Ontario Power Co.; then they began to set them up. In so far as there is any charge included in the power cost, I should say that it is almost inevitable that it is included in this computation.

MR. BONTHRON: But it is not, Mr. Wegenast. We have discussed this matter with the Accountant of the H.E.P.C. and he states that they have had it under consideration as to whether it was advisable to do so, which indicates to us that they have not done it.

CHAIRMAN: I suppose the principle they have already laid down would be intended to cover that and the Chippawa as well?

MR. WEGENAST: There are, of course, those. We know the sinking fund was set up.

CHAIRMAN: In Wasdell, for instance, has there not been sinking fund set up there and has it not been distributed?

MR. WEGENAST: Yes and in the Thorold System I think they did not consider themselves under obligation to set it up, but they did set it up.

MR. BONTHRON: All I am referring to is the Niagara System.

CHAIRMAN: And you think it important to establish a method by which this will be determined in the future how municipalities can be charged, in order that they may receive in the future the benefit of what they are contributing to the fund now.

MR. BONTHRON: Yes sir.

MR. J. A. ROSS: What is your answer to Mr. R.A. Ross's contention that in thirty years all the municipalities will be in the Hydro and there will be no chance to operate your method?

MR. BONTHRON: The method will operate just the same.

MR. J. A. ROSS: Up to that time but not beyond that time.

MR. BONTHRON: Yes, beyond that time.

J.

MR. A. ROSS: In so far as new expansion is concerned.

MR. BONTHRON: Let us assume that every municipality in the district would be receiving power and contributing to these sinking funds; Suppose that half a dozen, or more, of these municipalities would increase their consumption of power away beyond the general average for all the municipalities, then they would be receiving power out of all proportion to their interest in the capital. Do you see the point?

R.

MR. A. ROSS: No, they would be paying for it.

MR. BONTHRON: No they would only be paying for up to the end of the thirty-year period. Beyond that, they would not.

J.

MR. A. ROSS: That looks like a pretty important point, Mr. Gregory.

MR. WEGENAST: The same point would come in, as against the same municipalities at the present time.

MR. BONTHRON: It is a question of when this principle should be recognized and put into effect.

R.G.

MR. ROSS: The effect would be this: the man who came in originally accumulated a greater equity than the man who came in ten years later.

CHAIRMAN: What would this man receive?

MR. BONTHRON: He should receive a nominal rate of interest and he will in turn be charged with a part of that interest in his cost of power.

R.G.

MR. ROSS: It is a question of expediency; it is not a question of equity. The question is how to carry it out without involving too much complication.

MR. BONTHRON: We have settled upon a scheme, which we can outline in considerable detail.

R.

MR. A. ROSS: There are other features of it — matters of policy, outside your line — as to whether they would have less trouble with the municipalities by keeping them on a brotherhood basis. It makes pleasant platform talk.

MR. BONTHRON: I do not know that we should be influenced by the politics of the case.

R.

MR. A. ROSS: No; you have nothing to do with that.

MR. J.A. ROSS: Does it involve much work to outline it?

MR. BONTHRON: It does not involve much work to outline the principle but the completion ——— if it was not in our minds at all when we would attempt to actually calculate the equity of the various municipalities. It could be readily determined now because it is a

MR. [illegible]: [illegible]

MR. [illegible]: [illegible]

MR. [illegible]: [illegible]

very short period since the sinking fund provisions have been included in the power costs but, if it were allowed to go for a number of years, it would be quite a task.

CHAIRMAN: There may be some statutory changes necessary, in order to define the rights of the municipalities; some of them are rather vague.

MR. BONTHRON: We merely regarded them as allowing plenty of latitude.

CHAIRMAN: Is it left for the Hydro to determine?

MR. BONTHRON: That is a leading question. I would not be prepared to answer that.

MR. HANEY: I suppose a great deal is left for the Hydro to determine?

J. A. ROSS: That is about as far as we can go today.

CHAIRMAN: Then you will let us have that, Mr. Bonthron?

MR. BONTHRON: Yes. Now, generally, Mr. Clarkson's reports show the situation, but rather condensed. In other words, our reports will go into considerably more detail but we have no particular comment to make on any of the figures beyond the fact that the accounts of the H.E.P.C. have always been kept practically on a cash basis. There are always liabilities on the day-to-day balance sheet, which are not shown - for instance, capital obligations. Practically all the operating charges are taken care of. They are pretty careful and Mr. Clarkson is pretty careful. Before the so-called "13th month" power bill is calculated; but there are obligations, in the way of contracts and work performed of a capital nature, running into about half a million dollars, at the date of each balance sheet, which are not included.

MR. HANEY: Should they be included?

MR. BONTHRON: Yes, in order to show a true picture. With regard to the accounting system, we will offer some suggestions to strengthen it; possibly to effect some revisions in the clerical work which we consider unnecessary, in connection principally with the construction pay-roll system. The system is inherently sound. It is modern and the classification of accounts is very good indeed. It is the best that can be obtained. It is based upon a tentative classification for water power that has been worked out by the Interstate Commerce Commission of the United States. We have some minor suggestions but we think it would be of advantage that they be adopted. That is being made the subject of a separate report. That report is nearing completion.

J. A. ROSS: By the way, these reports will be given to us from time to

[illegible]

[illegible]

[illegible]

time so that we will have them for discussion.

MR. BONTHRON: We expect to commence the reports during the coming week and to continue every few days.

J. A. ROSS: For instance, you say that the Hydro method of accounting is right up to date. I should like to know how they are up to date and why. We will have these reports from you almost immediately?

MR. BONTHRON: In about a week's time you will be getting reports every couple of days.

MR. McCLELLAND: I should like to discuss with the engineers, some time next week, the pay roll system. You know a good deal about pay rolls Mr. Haney?

MR. HANEY: I do not know that I am up to date. We always kept pay rolls very simply so that all who ran might read.

MR. McCLELLAND: There is a tremendous movement of man power - what you might term a labor turnover - a great many men hired and discharged - especially during 1921. On that account the pay roll system was not just as complete as we looked for in an established business but they have checkers to see that the men are on the work every morning and afternoon and they keep a field pay roll to facilitate the paying off of men who leave in the interval between regular pay days. In connection with the rates of pay, as you know, we have given the engineers lists of the rates by occupations on each report but, with the apparently irregular items such as when you see men getting paid for thirty (30) hours in a day ----

MR. HANEY: That is due to overtime, I suppose?

MR. McCLELLAND: Partly due to overtime and partly to the fact that they omit to report a man's time for a day or two. Sometimes a man working on a locomotive, would work for a day or two at a stretch. In none of the cases investigated did we find any that were clear irregularities - by that I mean fraud. I should like you to study that report particularly carefully. A lot of time was given to that and I am sure that it will give you a good impression of just what was done. The material report - that is on the material system - we have that complete, subject to the fact that we have not received the report from the Accountant but the discrepancies are developed as a result of physical inventories taken in 1921. They did not take regular physical inventories. They had a good sytem of stock records but to say whether the system was carried out or not is another question and in fact there are large discrepancies which would lead you to think that the system was not carried out. These discrepancies run into Seven or Eight Hundred Thousand Dollars and the majority occurred in materials which were not in the storehouses but were out in the yard. We are getting a report from the Chief Accountant on that.

Also, we feel we will have more fun together.

DR. MONTEIRO: I regret to disappoint the younger director the reality must not be sometimes very dull.

I. A. Adler: The Tenement, you say that the Tenant method of accounting is right or so you. I believe I see the lady has gone up to the end tap. We will have some regular fun in our library in middlebury.

DR. CHAMPION: In about a month's time you will be getting somewhat regular fun.

DR. CHAMPION: I would like to discuss it at the conference, also the part about the jag will arrive. Are there a good deal more you want to, Champ?

DR. SMITH: I do not know that I am up to date. It always has been very slight or I'd get the rule right away.

DR. CHAMPION: There is a tremendous difference in the place - that you might have a large university - a small city and colleges - especially on our list. In case however you will notice not just how to analyze it so I think that is a problem. Illinois Institute of Technology is one that is the same as we do that and it is working and interesting and they have a right to do it. It is difficult the reading out of one who lives in the largest metropolitan district you know. It varies with the size of the city, so you know, we have the influence of the labor by organizing the work course that, also the especially irregular from of this are one getting paid for labor for a day ----

DR. BERRY: That is one is working, I figure.

DR. CHAMPION: Surely the in writing and getting of the day that the work is money a very fine form of the. Suppose a man working in a company, would work for a day or two of a month. In fact of the union investigation did so find out that was the Investigation - by that I mean. I should like to ask the Institute Industrial Relations. I a lot of time the time to the and I am sure that it will give you a good impression of just what we have. The society right - that is in the industrial course - so that the problem subject to the that but we have to involved the work-a-day. Am interested in the Investigation are involved in a study of industrial relations in 1920. That did not give [illegible] industrial relations. That had a good effect of [illegible] that is my method the giving an service in or not in another position and to look back and large change- [illegible] work that you to [illegible] the [illegible] and [illegible]. When disappointed the job [illegible] [illegible] Vickers and the majority [illegible] in [illegible] [illegible] not in the [illegible] not was in the past. In the getting a report from the other [illegible] to [illegible].

CHAIRMAN: I am glad you are getting that.

MR. McCLELLAND: There is this to be said about it; that a shortage of Seven or Eight Hundred Thousand Dollars, while a large amount, must not mislead you because the quantities of materials ran into many millions and, if we can pin this loss down to steel or cement, which were not stored in the storehouse and which could be removed by foremen, without requisition, then we would have some information.

R. A. ROSS: Did they have a good tool chest?

MR. BONTHRON: They would and should very closely account for any shortage of materials that developed in the storage records.

MR. HANEY: In order to get a cost of the work.

MR. BONTHRON: That is true from an accounting standpoint. The engineers would determine that it required so many sacks of cement; so many tons of steel, etc. That would be the basis of their estimate for valuation.

MR. McCLELLAND: Their estimates will not come so close to the books.

MR. HANEY: There should not be that discrepancy.

R. A. ROSS: I do not know of a manufacturing plant - no matter how well run - that did not show a shortage every year at inventory time, let alone on construction work.

MR. McCLELLAND: Do you say, Mr. Haney, that Mr. Francis' estimate of costs should show a cost that would include these materials?

MR. HANEY: They should produce a cost with that; absorb all the materials not accounted for.

MR. McCLELLAND: The basis of his appraisal will account for the total cost of materials.

MR. BONTHRON: We are prepared to report on the progress of the work and to tell you that the number of men employed on the work will be reduced to approximately fifty per cent (50%) the end of the coming week. This would indicate that the work is nearing completion.

MR. HANEY: I appreciate that you have no way of determining where the leaks are

MR. McCLELLAND: We did not perform a detailed audit; we would not discover that.

MR. HANEY: The only way that those could be discovered was by personal supervision.

J. A. ROSS: As you gentlemen bring in reports will you, Mr. Bonthron, be here?

MR. BONTHRON: Yes, I shall be in Chicagothis coming week and back in Toronto the following week and will be prepared to discuss the reports and substantiate in any manner possible the statements that we may make. I shall be prepared to answer any questions.

The representatives of Messrs. Price, Waterhouse & Company then withdrew.

MR. BOURDEAU: Yes, I shall be in Ottawa this coming week and back in Toronto the following week and will be prepared to discuss the reports and substantiate in any manner possible the statements that we may make. I shall be prepared to answer any questions.

The representatives of Messrs. Price, Waterhouse & Company then withdrew.